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FFIEC Releases Interagency Statement Encouraging Combined Resources for Community Banks

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In early 2015, the Office of the Comptroller of the Currency (OCC) took the regulatory lead in publishing a "whitepaper" discussing a number of areas where community banks might consider combining their efforts to share common expenses and resources between institutions in an effort to reduce overall operating expenses.

The OCC's whitepaper recognized the continuing need for community banks to examine opportunities to reduce overhead while still remaining independent, a model that in reality forms the business basis for the efficiencies gained in holding company formations and bank acquisitions.

Following on that theme, on October 3, 2018, the Federal Financial Institutions Examination Council (FFIEC) issued an Interagency Statement on Sharing Bank Secrecy Act Resources which reinforces the notion that there are a number of common "back room" functions that institutions can share in a "pooled resources" manner to reduce common expenses.

In all collaborative enterprises by banks, each participating institution will need to carefully take into account relevant customer privacy, employee sharing, risk and competitive issues as they consider whether such initiatives are appropriate. Each of these issues can be addressed and resolved in a variety of manners.

Participating institutions remain responsible for their own compliance and safety and soundness obligations and will be examined for compliance and related matters individually even though the services may be conducted through a collaborative venture among multiple institutions. While the recent FFIEC statement is directed toward Bank Secrecy Act compliance resources, similar collaborative ventures for

support services provide the same potential benefits and involve the same ongoing obligations.

In an era of enhanced competition for banking business from larger institutions, community banks and thrifts have a number of opportunities to reduce overhead, increase efficiencies and leverage talent through collaborative ventures. Taking advantage of those opportunities can provide the same type of leverage that occurs by combining resources and eliminating duplicative overhead through an acquisition, while participating institutions retain their independence. It is the same business model and concept, on a different scale, with the result that communities retain the independent decision-making and access that occurs with institutions that remain independent.

The FFIEC statement (and the underlying concepts behind collaborative ventures among independent institutions) does not absolve participating institutions from their individual compliance obligations or the need to provide appropriate training and continue to identify and mitigate risk while implementing appropriate internal controls. Those obligations of course remain with each participating institution. However the FFIEC statement, as with the 2015 OCC whitepaper, provides encouragement and direction for institutions to consider engaging in collaborative ventures to enable them to address and reduce duplicative back-room and support expenses in a fashion that encourages opportunities for continued independence.